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Portugal

Sugar

Sugar Annual Report

1999

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Report Highlights:

Portugal's white sugar output is forecast at 66,000 Mt in 1999/2000, unchanged from the previous year. The 297,000 ton domestic market will continue to be primarily supplied with sugar produced from the refining of raw cane sugar by the two local refineries. Imports are forecast to remain stable due to the existence of EU-set zero-tariff and reduced-tariff import quotas from selected origins. U.S. access to this market should remain minimal due to the EU preferential import quota regime. 1 USD = 192 Pte.

Includes PSD changes: Yes
Includes Trade Matrix: No
Unscheduled Report
Lisbon [PO1], PO

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Executive Summary

Obtained from processing sugar beets, Portugal's centrifugal sugar production is forecast to total 66,000 Mt in 1999/2000, of which 65,000 Mt will be produced on mainland Portugal and 500 Mt in the *Azores* islands. The total level of centrifugal sugar output will tend to remain mostly stable over the medium-term future, restricted by EU-set production quotas for mainland Portugal, and by the declining sugar beet production in the *Azores*. The future of mainland Portugal's sugar beet quota is the most decisive factor conditioning the level of local sugar output. Mainland's sugar quota is presently set at 70,000 Mt white sugar output, of which the most attractively-subsidized "Quota A" totals 63,636.4 Mt, which is roughly equal to mainland Portugal's sugar output. Sugar production in the *Azores* is object of a specific EU-set regime for disadvantaged ultra-peripheral regions: the POSEIMA program.

The mostly stable national sugar domestic consumption, forecast to achieve 297,000 Mt in 1999/2000, will continue to be primarily supplied with refined raw cane sugar from two local refineries. During 1998/99, mainland Portugal's beet sugar producer DAI supplied some 20% of the domestic industrial sugar market with sugar sold in bulk, while exporting most of its white sugar output. In 1999/2000, DAI will reportedly attempt to enter the sugar retail market with about half its current output, for which it projects to install a sugar packaging line shortly.

Restricted by import quotas set by the EU, total sugar imports are forecast to remain at 311,000 Mt in 1999/2000. The level of imports should remain mostly unchanged over the medium-term future, while the market will continue to be balanced with high sugar exports, largely through the EU export subsidy regime. Of the total 80,000 Mt forecast 1999/2000 sugar exports, some 45,000 Mt are expected to be exported into non-EU destinations. Sugar imports from the U.S. will tend to remain negligible due to the EU-assigned import quotas which convey preferential access to other origins like ACP and SPS countries, Cuba or Brazil. The reform of the common sugar policy, to be initiated under the Portuguese EU Presidency in 2000, could affect key market issues, such as the relative competitiveness of beet versus cane sugar, the level of domestic sugar production, or the level of total sugar imports and exports. No major changes are presently expected though, due to the financial balance of the EU sugar sector. The most likely change as far as Portugal is concerned is its conversion from sugar "deficit" to "surplus" region status, a change which would have a negative impact upon the total level of subsidies conveyed to the sector.

1 USD = 192 Pte; 1 USD = 1.0454; 1 EURO = 200.482 Pte

Centrifugal Sugar

Production, Supply & Distribution Table

PSD Table						
Country	Portugal					
Commodity	Centrifugal Sugar				(1000 MT)	
	Revised	1997	Preliminary	1998	Forecast	1999
	Old	New	Old	New	Old	New
Market Year Begin		10/1997		10/1998		10/1999
Beginning Stocks	33	33	37	33	41	30
Beet Sugar Production	4	70	4	66	0	66
Cane Sugar Production	0	0	0	0	0	0
TOTAL Sugar Production	4	70	4	66	0	66
Raw Imports	303	311	0	310	0	310
Refined Imp.(Raw Val)	2	1	0	1	0	1
TOTAL Imports	305	312	305	311	0	311
TOTAL SUPPLY	342	415	346	410	41	407
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	5	90	5	85	0	80
TOTAL EXPORTS	5	90	5	85	0	80
Human Dom. Consumption	300	292	0	295	0	297
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	300	292	300	295	0	297
Ending Stocks	37	33	41	30	0	30
TOTAL DISTRIBUTION	342	415	346	410	0	407

Production

Centrifugal sugar output is produced through the processing of sugar beets grown in mainland Portugal and on the *Azores* islands. Restricted by the EU-set production quota for mainland Portugal and a limited supply of beets in the *Azores*, Portuguese 1999/2000 centrifugal sugar production will remain mostly stable relative to the previous year. No major changes are anticipated for the medium-term future. For white sugar outputs in mainland Portugal and in the *Azores* during 1997/98, 1998/99 and 1999/2000, please check table below.

Mainland white sugar output is produced by the local sugar beet processor DAI, whose beet factory is located in the near-Lisbon *Coruche* area. Due to the gradual effect of the new factory stimulating local beet production, DAI reports that 2000 it will process locally-produced beets exclusively (see Sugar Beets). Azorean sugar is obtained from the processing of beets grown in the main *São Miguel* island. Total Azorean white sugar output

has been on a declining trend for lack of local sugar beet supply (see Sugar Beets) while a favorable importation regime for the islands tends to displace interest for local sugar beet processing.

No major changes are anticipated for the medium-term future. Mainland Portugal's white sugar output is limited by the EU-assigned production quota of 70,000 Mt. In practical terms and under local market conditions, local sugar output tends to remain at about the level of the "Quota A" share of the total quota of 63,636.4 Mt due to higher EU incentives relative to the "Quota B". An increase in the sugar quota has been pursued by local processors, fully backed by the GOP, has yet to be approved by the EU. No major changes in sugar output are anticipated for the *Azores* either, where sugar beet production is dwindling.

Portugal: White Sugar Production (Mt)

	1997/98	1998/99	1999/2000 (*)
Mainland Portugal	69,078	65,310	65,000
Azores	1,241	618	500
TOTAL	70,319	65,928	65,500

SOURCE: OFFICE OF PLANNING AND AGOFFICE ESTIMATES; (*) FORECAST.

Consumption

Sugar demand overall is stable, and no major changes in consumption are anticipated. The local market continues to be primarily supplied with cane sugar refined by the two local sugar refineries. When it started processing, DAI exported most of its white sugar production, selling only a portion of its output in bulk to the local industrial market. DAI accounted for a 20% share of the domestic market during 1998/99. Now, DAI is planning on investing some \$0.5 million in a sugar packaging line in order to enter the local sugar retail market. As a result, some 50% of its 1999/2000 sugar output will reportedly be diverted into the production of 1 kg packs to sell domestically, supplying an estimated 10% of the local sugar market. In addition to sugar, Portugal has an EU-assigned yearly 10,000 Mt HFCS quota, which is filled by one private company. Consumption of alternate sweeteners has stabilized in recent years at about 7,000 Mt yearly. Wholesale prices for these products tend to remain unchanged for relatively long periods of time. The *Refinadoras de Açúcar Reunidas* RAR reports that the latest price revision took place in March of 1999 as a consequence of the introduction of the EURO. Sugar wholesale prices reported by RAR at the time of their latest revisions in March 99, May 98 and April 96 are given below.

Portugal: Wholesale Prices (Factory Gate)

Date	Price (Pte/Kg)
March 1999	154.1
May 1998	154.6
April 1996	165.3

Source: RAR

Trade

Consisting primarily in raw cane sugar for refining by the two local refineries, total Portuguese sugar imports remained stable during 1997/98 and 1998/99. Simultaneously, the surplus sugar production that developed was exported, with brown sugar being mostly exported into other EU countries, especially Spain, and refined white sugar into non-EU countries under the EU export subsidy regime. No major changes in sugar imports are anticipated for 1998/99 and 1999/2000. Sugar surplus will continue to be exported to both EU and non-EU destinations.

Portugal: Sugar Trade Matrix (Mt)

	1996/97	1997/98	1998/99	1999/2000
Total Sugar Imports				
Non-EU	292,222	311,314	311,000	311,000
EU	3,993	562	0	0
Total	296,215	311,876	311,000	311,000
Total Sugar Exports				
Non-EU	6,593	43,574	45,000	45,000
EU	6,552	46,031	40,000	35,000
Total	13,145	89,605	85,000	80,000

Raw sugar imports to supply the local sugar refineries are subject to EU-set yearly import quotas. Sugar imports into the Azorean and Madeira islands are subject to a regime established under a special program to address the specific needs of ultra-peripheral EU regions, the POSEIMA. Accordingly, these regions can import duty-free sugar from the World market, or bring it in from the EU while receiving EU export subsidies. The 1998/99 and 1999/2000 mainland import quota breakdown, as well as that of the POSEIMA raw sugar quotas are provided in tables below.

Portuguese Raw Sugar Import Quotas

Units: 1,000 Mt

	1998/99	1999/2000
Tariff-Free		
ACP Countries	17.5	17.5
Reduced Tariff		
SPS Countries (*) + Cuba + Brazil	274.5	274.5
TOTAL	292.0	292.0

(*) Special Preferential Sugar

Portuguese Raw Sugar Import Quotas under the POSEIMA Program
Units: Metric Tons

	1998/99	1999/2000
Azorean Islands	6,500	6,500
Madeira Islands	10,000	10,000
TOTAL	16,500	16,500

Policy

Portugal's sugar policy is harmonized with that of the EU, through which intervention prices and export subsidies (restitutions) are set. Further, investment is supported through the EU farm and food industry investment support programs, under which DAI's investment cost of roughly \$90 million was co-financed by the EU, a decision which was challenged by the two local refiners in the European Court of Justice.

Intervention prices in effect in Portugal take into consideration the fact that Portugal is a deficit sugar region within the EU. Intervention prices in effect in Portugal during 1998/99 are given in table below.

EU-set Sugar Intervention Prices during 1998/99

	Euros/100 Kg
EU	63.19
Portugal	64.65

Some adjustments of EU policy are likely to take place as far as Portugal is concerned during the revision of the Common Sugar Policy, which will take place under the Portuguese EU Presidency in 2000. Among others, Portugal's classifications as a sugar deficit region is likely to be altered as a consequence of the fulfillment of mainland Portugal's sugar quota by DAI, a change which should have a negative impact upon the total level of supports conveyed to the sector. On the other hand, the GOP will likely attempt to increase mainland Portugal's sugar quota from 70,000 Mt up to 100,000 Mt. Chances of achieving this target appear to be quite dim at present though, given the current state of the EU sugar market and in particular of sugar production trends in former East Germany and Eastern European countries.

Sugar Beets

Production, Supply & Distribution Table

PSD Table						
Country	Portugal					
Commodity	Sugar Beets	(1000 HA)(1000 MT)				
	Revised	1997	Preliminary	1998	Forecast	1999
	Old	New	Old	New	Old	New
Market Year Begin	10/1997		10/1998		10/1999	
Area Planted	0	3	0	3	0	3
Area Harvested	0	3	0	3	0	3
Production	0	125	0	164	0	420
TOTAL SUPPLY	0	125	0	164	0	420
Utilization for Sugar	0	125	0	164	0	420
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	0	125	0	164	0	420

Production

Expanding quickly since DAI started operating in mid-1997, total 1999/2000 sugar beet areas and outputs will be enough to enable the virtual fulfillment of mainland Portugal's sugar quota. Beet areas tend to be geographically distributed with a similar pattern relative to earlier years, with the beet growers association ANPROBE reporting that out of total 1998/99 beet areas, roughly half was seeded in the *Ribatejo* and the other half in the *Alentejo* provinces, with an insignificant 250 ha being still seeded in the fertile *Mondego* river valley. In the Azores, beet areas and outputs reveal a declining trend as more farmers are being drawn into the more attractive dairy activity, a trend which is not expected to change in the medium-term future.

Due to the farmers' quick adjustment to the crop and technological improvements over past years, average yields have risen to enable achievement of mainland beet quota with a smaller area extension than anticipated. Further, the success of the crop is expected to force the implementation of a system to control the sugar beet quota distribution among beet farmers on 2000/2001.

Beet growers are mostly experienced corn farmers, who now include this crop to which they have quickly adjusted in their yearly crop rotations. Beet production is fully mechanized. As required machinery is mostly different from the one used to cultivate corn, it is generally rented or the services of specialized providers are utilized. Only high quality seeds are utilized, including pelletized seeds and seeds with insecticide. Interest in BT sugar beet seeds is high due to the economies brought to the production process.

Portugal's Beet Output and Areas Planted

	1997/98	1998/99	1999/2000 (*)
	Continental Portugal		
Area (ha)	2,618	3,140	8,360
Beet Production (Mt)	108,248	155,887	415,000
	Azores Islands		
Area (ha)	355	243	140
Beet Production (Mt)	17,108	7,875	4,540
	Total		
Area (Ha)	2,973	3,383	8,500
Beet Production (Mt)	125,356	163,762	419,540

SOURCE: OFFICE OF PLANNING; (*) FORECAST.

Average Polarization of Sugar Beets (%)

	1997/98	1998/99
Mainland Portugal	16.3	15.6
Azores	12.6	14.1

SOURCE: OFFICE OF PLANNING

Consumption

Consumption of nationally-produced sugar beets has been going up since DAI started operating in 1997. Due to the reduced local 1997 and 1998 beet crops, DAI filled the rest of its minimum laboring needs during its first two years of operation with beets brought in from Spain. During 1998, DAI reports to have imported about 60% of its raw material needs from Spain, whereas in 1999 it expects to import only 20%. In 2000, DAI expects to buy 100% of its needs locally.

Policy

EU sugar beet production incentives are in effect in Portugal. Accordingly, sugar beet production is subject to minimum purchase prices to be respected by the sugar factory. Further, as sugar beets are in an expansionist period and there is need for national production to be encouraged, Portugal was allowed by the EU to grant a degressive support to mainland Portugal sugar beet production during 1998/99, 1999/2000 and 2001/2002 (EU Reg. 2613/97, dated December 15). Current levels of purchase price, unchanged from a year ago, and of national sugar beet supports are given in Table below:

**Portugal: Minimum Purchase Prices of Sugar Beets
during 1997/98 and 1998/99**

Minimum Producer Prices	
46.72 EUROS/Mt	Quota A
32.42 EUROS/Mt	Quota B

Portugal: National Subsidies to Sugar Beet Production

Marketing Years	Pte/Mt of Sugar Beets (a)
1998/1999	1,600
1999/2000	1,200
2000/2001	800

(A) Sugar Beets with 16° Polarization

In order to encourage local beet production, DAI pays a transportation premium to the farmers according to a pre-set scale whose values vary with the transportation distance.